



**Subject:    SYSTEM REQUIREMENTS AND OPERATION**

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**3-00-00       GENERAL**

This accounting manual part prescribes general guidelines for the establishment of accounting records and their maintenance and control. The forms and processes described are not to be applied arbitrarily. Rather, the intent is to provide general guidance to financial management, officials, systems analysts, and others responsible for the development and maintenance of agency accounting systems, so that, each system in addition to meeting the specific needs of the agency will consistently provide compatible data required by the Department, Congress and the Control Agencies. External reporting requirements and the procedures for establishing internal reporting requirements for accounting systems are set forth in Part 5, Financial Reporting, of this manual.

**3-00-10       SYSTEM DOCUMENTATION**

- A.    The accounting system in each agency will be fully documented in an accounting manual which will serve as the official means of detailed communication and reference. It should contain accounting policies, account formats, methods, procedures, and practices and the forms to be employed. The use of documents, records and forms will be clearly defined and processes simply describe. All matters essential to the proper functioning and control of the system will be covered. It is important that the manual be complete and currently maintained so that:
  - 1.    It will serve as a detailed guide for the conduct of daily operations by supervisors and clerks, and thereby form the basis for achieving uniformity, consistency, and reliability in accounting operations.
  - 2.    It will serve as a means of communication with those persons concerned with processing system input documents

and those who use the reports and data compilations produced by the system.

3. It will serve as a means of indoctrination and instruction of new personnel.
4. It will serve as a means of broadening and increasing the capabilities of accounting personnel generally.

Also, system integration, coordination, responsiveness, and control depend essentially upon clear precise communication and understanding of the procedures to be followed. Consistent attainment of this objective is not possible, particularly in the larger agencies, without a comprehensive procedures manual.

### **3-00-20      ELEMENTS COMPRISING A TOTAL SYSTEM**

A total accounting system includes all input documents evidencing accounting transactions, all of the accounts and subsidiary records maintained, trial balances, working papers, reports, and the detailed procedures which make it a workable system. In a mechanical system, either EAM or EDP, printouts of accounts information will be produced at regular intervals. These printouts will be indexed and retained in post binders. Each agency's accounting manual will specify the documents to be used as a basis for entry or as the record to be employed in each phase of the accounting process or class of accounts affected. It will establish specific responsibility for control and custody of the documents. All transactions, adjustments, analyses, accruals, and related processes will be completely documented. They will be referenced and maintained so as to clearly support the entries to the accounts and the reports produced from them. All documents must be readily accessible for reference at all times.

The use of procedures, methods and techniques not prescribed or explained in the accounting manual will be avoided. Methods and techniques occasionally employed for special reports and analyses will be fully documented and retained with the related working papers.

### **3-00-30      BASIC STRUCTURE OF A SYSTEM**

#### **A.      General**

The chart of general ledger accounts prescribed in Chapter 3-20 of this manual, which includes account codes, account title, account definitions and transaction flow specifications, forms the basis structure of the accounting system outlined in this chapter. This general chart of accounts fulfills the requirements prescribed by the General Accounting Office and the Bureau of the Budget and is structured with sufficient flexibility to meet the needs of all agencies within the Department. Use of additional or substitute accounts to meet any unique situations or an agency must be cleared in advance with the Office of Comptroller.

B. Functions of the Account Structure

The basic structure of the chart of general ledger accounts is functionally segmented as follows:

- |                |                          |
|----------------|--------------------------|
| 1. Assets      | 5. Reciprocal and income |
| 2. Liabilities | 6. Expense               |
| 3. Capital     | 7. Statistical           |
| 4. Budgetary   |                          |

The specific account titles, codes, contents and transactions, of individual accounts within each segment are detailed in Chapter 3-20, General Ledger Accounts. The functions of each segment as follows:

1. The asset accounts primarily reflect the resources available to an agency to carry out its assigned program(s). Among this largest group of prescribed accounts are (a) separate accounts reflecting fund balances with the U.S. Treasury for each appropriation, (b) various receivable and advance payment accounts, (c) inventory accounts, and (d) fixed asset accounts.

Each agency has the responsibility for maintaining current and accurate records of individual disbursements and deposits. The Treasury Department maintains only summary control totals for each agency accounting station. Net disbursements and deposits of receipts must be reconciled monthly with the U.S. Treasury summary accounts. Reports of net disbursements and receipts by appropriation, fund, and receipt accounts together with related control totals must be furnished the U.S. Treasury shortly after the close of each month.

The inventory and fixed asset accounts are control accounts over detailed property records. Amounts representing current consumption of these assets are obtained from either subsidiary accounts or records and are the basis for charges to the expense accounts.

2. The accounts payable and accrued liability accounts reflect accrued expenditures for which payment is not made or due in the current accounting period. Entries to accounts payable will be recorded currently as receiving or work progress reports are received. The control accounts are usually supported by subsidiary accounts or records for each creditor. In mechanized operations, either EAM or EDP, the subsidiary records may be individual transactions of amounts owed to creditors recorded on punch cards or magnetic tape. Entries to the accrued liability accounts will be determined at the end of each fiscal period (monthly for most applicable objects). Accruals are determined for such objects, among others, as salaries and related personnel benefits earned during the fiscal period but not due for payment until the

subsequent fiscal period, travel expenses incurred but not paid in the fiscal period, continuing contractual type services not billed or paid monthly, and unfunded expenses such as accrued annual leave.

Accrued expenditures as accumulated in the liability accounts will differ from obligations incurred for some objects of expenditure because some obligations are incurred as contracts are awarded or orders for goods or services are placed regardless of when the goods will be received or services rendered.

Separate accounts payable and accrued liability accounts must be maintained by appropriation for (1) amounts owed to Government agencies and (2) amounts owed to other than Government agencies. This information is pertinent to establishing the total amount owed by the Government as a whole.

3. Agency equity, as represented by the Capital Accounts ("300 Series") is defined as residual accountability for resources which are within the control of the agency and carry forward to subsequent fiscal periods. These resources include inventories, prepaid expenses, fixed assets (net to depreciation) and deferred charges. The periodic change in agency equity is computed in the closing process.

The difference between Expended Appropriations (a/c 471) and Income Control (a/c 551) and Expense Control (a/c 601) represents changes in selected resources. In the case of revolving funds gains or losses from operations are included in the computation of the change in agency equity. For other type funds, the unobligated balances lapse at the end of their period of availability and revert to the general fund of the U. S. Treasury, therefore, have no effect on equity.

4. Budgetary Accounts. The budgetary segment of accounts ("400 Series," & above) is used to record and control appropriations and funds from, the point of authorization or receipt through apportionment, allotment, obligation, and expenditure. Control and subsidiary record format and content are arranged primarily for the primarily for the purpose of controlling, accounting, and reporting on the status of funds in accordance with statutory and regulatory requirements. Appropriations and other congressional authorizations are credited as enacted. Estimated reimbursements and other available funds (transfers, transfer appropriations) are similarly recorded in accordance with interagency agreements and other authorizations. Apportionment approved by the Bureau of the Budget and allotments issued within an agency also are entered in these accounts. The remaining

entries are primarily those which arise from carrying out the agency's programs, i.e., fiscal transactions resulting from direct operations, grants, etc. They are entries which record in summary from by appropriation the amounts which reduce or increase the available funds. These accounts facilitate the control of funds and permit rapid preparation of status of funds reports at the allotment level or higher.

5. Reciprocal Control and Income("500 Series," Segment 5)

a. Reciprocal Control

This segment of accounts is employed when the general ledger and/or allotment ledger has been decentralized to field stations of an agency. The accounts are also used to facilitate transfer and control of parts of an appropriation or fund which will be used by more than one agency of the Department. This type of transfer is similar to an allocation to a transfer appropriation account (allotments of the Civil Rights appropriation is an example of this type of transfer). See explanation of use and sample entries in Sections 3-20-30 and 3-20-50 of this manual.

b. Income

This segment of accounts is used to record current year operating and other income. Appropriate subsidiary records should be maintained to permit analysis of income by types of services rendered, goods supplied, interest earned, etc.

6. Expense Control ("600 Series," Segment 6)

This segment of accounts functions as a control over the accrual base expense data maintained in detailed subsidiary accounts and records. Two sub-segments will be maintained in this series. One for funded costs and the other for unfunded costs (annual leave accruals and depreciation):

a. The subsidiary accounts for funded costs will be maintained at organizational levels consistent with assigned responsibility for effective management of an activity, operation, or extended project. Short-range projects need not be established as cost centers; cost findings may be used instead to determine costs of such projects to avoid frequent changes in account classifications.

b. Unfunded costs will be distributed monthly only at the major organizational or budget activity level. Finer distribution of these costs will be made as frequently as required to determine total costs of reimbursable operations and in analyzing and comparing costs of measurable operations.

The sources of entry to the expense control segment of accounts are:

- (1) The Accounts Payable Process
- (2) The Recording of Accrued Liabilities
- (3) Revenue and Receipts Processes for Refunds
- (4) The Disbursements Process

The Expense Segment of Accounts is closed out to the "300 Series", Capital Accounts at the end of each accounting period.

7. Statistical Accounts ("700 Series", Segment 7)  
This segment contains accounts which primarily perform certain ancillary accounting functions in relation to the Civil Service Commission and Treasury, such as, control accounts for retirement fund deductions and payments. The uses of these various accounts are described in Section 3-20-30 of this manual.

**3-00-40      APPROPRIATION ACCOUNTING - INPUT AND OUTPUT  
CONTROLS, REVENUE AND RECEIPTS, CLOSING ENTRIES**

The flow of transactions through the budgetary segment of accounts provides for identification of (1) the source and nature of funds; (2) their status as to apportionment, allocation, and allotment; and (3) their status with respect to obligations incurred, expenditures, and realization of reimbursements. These are required accounts which serve as input and output controls for the entire accounting system. The design of allotment and other subsidiary accounts for a particular agency's system will be structured in accordance with the program and administrative requirements of the agency. These requirements will be established in the manner set forth in Chapters 5-00 and 5-10). Initial entries in the budgetary accounts (through the allotment stage) are made form documents evidencing (1) congressional approval of appropriations and authorizations to incur obligations or expend special funds, (2) apportionments (some appropriations or funds may not be subject to apportionment), and (3) allotments approved by the agency's budget office. Changes and adjustments in these accounts must be similarly evidenced prior to entry. Two transaction flows are prescribed; the first, for funds subject to apportionment and the second, for funds not subject to apportionment. These transactions flows are outlined in the charts and explanatory test following:

- A. Flow of funds subject to apportionment  
Funds subject to apportionment include:

1. Direct Appropriations.
2. Contract and Other Unfunded Authorizations and Transfers Authorized by Congress.
3. Authorized Reimbursements to Appropriations and Available Receipts.

**"FLOW OF FUNDS SUBJECT TO APPORTIONMENT  
IN THE USING AGENCY'S ACCOUNTS"**

**CHART NOT AVAILABLE IN ELECTRONIC FORMAT**

The entries, for funds subject to apportionment, shown in the chart on the preceding page are as follows:

Entry Number

- 1 Direct appropriation (Dr Account 101, Cr account 451) are entered from appropriation warrants issued by the Treasury Department and countersigned by the Comptroller General.
- 2 Contract and other unfunded authorization and transfers (Dr account 116, Cr account 451) are entered from the documents evidencing congressional authorization (a) for contract negotiation, (b) for consolidation, merger, or transfer of appropriations, (c) for use of certain general or special fund receipts as realized, and (d) to expend trust fund monies up to an established limit.
- 3 Estimated reimbursements authorized in the approved budget are entered (Dr a/c 401, Cr a/c 451).
- 4 This entry (Dr a/c 101, Cr a/c 116) records the funding of disbursing accounts by Treasury in accordance with prior authorizations (previously entered in 2 above) as evidenced by:
  - (a) Warrants issued by Treasury in accordance with appropriations enacted to fund prior Congressional authorizations.
  - (b) Accomplished transfer documents (SF-1151) evidencing the actual transfer, merger, or consolidation of funds in accordance with Congressional authorization. In the case of Congressional authorizations to expend funds directly from trust accounts, the agency responsible for initiating action to transfer monies to its disbursing account will request the monies only as needed to meet current disbursement requirements.
  - (c) The receipt and deposit of available receipts in accordance with prior authorization.

At this point in the flow, the total reflected in Account 451 forms the basis for preparation of the apportionment request to the Bureau of the Budget and should agree with the total of amounts reflected on the Standard Form (SF-132 or 142) submitted. Adjustments or changes in the amounts recorded in these accounts are entered from documents evidencing BoB changes in the operating budget. The flow of funds out of Account 451 (Unapportioned Funds) is based upon BoB apportionments. Any balance remaining in Account 451 reflects the amount of Unapportioned funds or reserves as indicated on the initial or revised SF-132's (or 142's) approved by the Bureau of the Budget.



Entry Number

- 5 Funds apportioned for obligation and expenditure in the current quarter are transferred to Account 456 pending the issuance of allotments.
- 6 Funds apportioned for obligation and expenditure in subsequent quarters are temporarily transferred to and reserved in Account 455. At the beginning of each quarter, the amount apportioned for that quarter is moved into Account 456 pending the issuance of allotments.
- 7 Approved allocations to other Government agency transfer appropriation accounts, are entered as a debit to accounts 455 and 456 and a credit to account 459 in accordance with approved apportionment schedule. The request for apportionment of such funds is based upon an agreement between the parent and using agencies. Such allocations are usually confined to large construction or similar projects, specified in the parent appropriation, for which direct supervision and administrative responsibility is assumed by the agency receiving the allocation.
- 8 Establishment and issuance of official allotments, within the apportioned limits for each appropriation, are recorded in this entry (Dr a/c 456, Cr a/c 461).
- 9 Obligations are recorded in summary form at the appropriation and allotment control level from batched and cleared documents evidencing transactions (Dr a/c 461, Cr a/c 465. The totals secured in posting to the subsidiary records (allowance controls) are reconciled to the amounts previously entered in the control accounts. In a computer system, as batch total is used as the major control and the input run sheets provide the distribution of totals by appropriations, allotments, and allowances, if used.
- 10 Accrued expenditure transactions, either accounts payable or accrued liabilities are the source of this entry. The liquidating debit to Account 465 must be in the total of amount previously obligated for the accrued expenditures being processed. Any difference between the totals previously obligated and the total of amounts to be paid must be adjusted in the entry increasing or decreasing the unobligated balance (a/c 461). Payment transactions not preceded by establishment of an obligation will usually be recorded as a debit to 461, Unobligated Allotments and a credit to 471, Expended Appropriations.

The credit to account 471 corresponds to the total amount of the accrued expenditure transactions processed in each batch. In a computer operation these summary entries are verified by comparing the individual amounts with the amounts previously recorded as obligations.

Entry Number

- 11 As measurable units of reimbursable work or services are completed, the amounts earned are billed and recorded as a credit to Account 482. Account 482 serves to assemble reimbursement income data for comparison to the budgeted amounts recorded in Account 401, Estimated Reimbursements, to provide the means of keeping allotments in line with realized income in accordance with Section 11, Circular A-34, Bureau of the Budget.

In a system where volume is low and other requirements permit, billings may be charged directly against existing advance accounts. The preferable practice is to charge all billings to accounts receivable, and advances earned are cleared against the receivable. Two entries are thus involved (1) Dr 1110, Accounts Receivable (Government), Cr. A/C 482, Reimbursements Earned, (2) Dr. a/c 271, Advances from Other Agencies, Cr. A/c 110, Accounts Receivable.

- 12 As amount apportioned to subsequent quarters become available for allotment, obligation, and expenditure, they are transferred to Unallotted Funds, Current Quarter, Account 456.

B. Flow of Funds not Subject to Apportionment  
in the Using Agency's Accounts

Transfer appropriation accounts and consolidated working fund advances to directly finance and account for obligations and expenditures are set up, in the negotiated or budgeted amount, in Accounts 421 and 422, respectively. These accounts have been established to segregate such allocations and advances from funds subject to apportionment. The required entry, upon receipt of the documents which place these amounts in Treasury Disbursing Accounts, under the fund title and symbol designated is:

Dr. 101 Disbursing Fund  
Cr. 271 Advance from Other Agencies

The series of entries prescribed for subsequent transactions is illustrated in the text following the below chart. Each numbered entry is explained in the text following the chart.

**"FLOW OF FUNDS NOT SUBJECT TO APPORTIONMENT**

**Transfer Appropriations  
Consolidated Working Fund Advance Accounts"**

**CHART NOT AVAILABLE IN ELECTRONIC FORMAT**

Entry Number

Explanation of numbered entries for funds not subject to apportionment in the using agencies accounts:

- 1 Entry for amounts to be established in transfer appropriation accounts in accordance with the parent agency's apportionment schedule as expressed in the agreement between the agencies.
2. When obligations and accrued expenditures are to be charged directly to the fund title and symbol established for Consolidated Working Fund Advances, a complete segment of accounts must be in general conformity with the procedures established for regular appropriations. This entry record total amount budgeted and apportioned for the fiscal period contemplated in the agreement. From this point on the accounts and entries for issuance of allotments and controlling funds are the same as those specified for apportioned funds.

When obligations and accrued expenditures are charged to a direct appropriation and the Consolidated Working Fund Advance accounts are used only to reimburse the direct appropriation, the only accounts employed are Disbursing Funds, CWF (101) and Advances from Other Agencies. In these instances, the amount of reimbursements must be estimated and apportioned as a part of the appropriation so utilized in accordance with the limitations applicable to the parent appropriation. The direct appropriation is periodically reimbursed by internal transfers using either (SF-1081) or a journal voucher crediting 101 Disbursing Funds (CWF) and debiting 101 Disbursing Funds (appropriation).

A concurrent entry is made debiting account 271 (CWF symbol), Advances for Other Agencies, and crediting Account 482, Reimbursements Earned (appropriation symbol).

- 3 Records the issuance of allotments for both transfer appropriation and Consolidated Working Fund Accounts.
- 4 and 5 Records obligations and accrued expenditures in the same manner as for funds subject to apportionment.
- 6 Records in Accounts 421 and 422 the summary of classification of revenues and the consumption of an advance previously recorded in Account 271. The source of entry is the report or summary of expenditures submitted to internal management and/or the parent agency as required. Alternatively, the reports or summaries may be charged to Accounts Receivable and the advance is then written off against the receivable.

C. Closing Entries

The pattern of closing entries for appropriations or funds is generally the reverse of the pattern used to establish them. Closing entries are made in series of distinct steps as follows:

1. Withdrawal of unobligated balances of allotments for all lapsed funds including transfer appropriation, management, and consolidated working funds accounts.
2. Repayment or withdrawal of unused advances and allocations.
3. Adjustments for unrealized authorizations and estimated reimbursements.
4. Assembly and determination in Account 451 of the unobligated amounts of direct appropriations subject to withdrawal by Treasury.
5. Withdrawal of unobligated amounts by Treasury.
6. The transfer of Disbursing Funds, Receivables and Unpaid Obligations contra to Successor "M" Accounts.
7. Closing of Expended Appropriations (471), Income (551), and Expense Controls (601) into Capital Account (351).

The following chart and legend illustrates the closing entries for unobligated balances subject to withdrawal or repayment in the budgetary and relate asset and liability accounts. These entries are outlined in the chart and referenced explanations following:

**"CLOSING ENTRIES**

**UNUSED OR UNOBLIGATED BALANCES OF FUNDS"**

**CHART NOT AVAILABLE IN ELECTRONIC FORMAT**

<u>Entry Number</u>	<u>Description Closing Entries</u>
1	Closing of Unobligated Allotment Balances (461) into Unallotted Funds - Current Quarter (456) to affect withdrawal of unused portions of allotments (all funds).
2	Closing of unused portion of Consolidated Working Fund Budget (422) into Unallotted Funds - Current Quarter (456) to affect withdrawal of unobligated balances of allotments (applicable only where Consolidated Working Fund Advance accounts are used directly to finance and account for the work or project performed).
3	Closing of unused or unobligated allocations (Account 421, transfer appropriation accounts) into Unallotted Funds Current Quarter (456) in preparation fore repayment to the parent agency or direct withdrawal by Treasury.
4	Closing unobligated balances (direct appropriations, authorizations and reimbursements) from Unallotted Funds - Current Quarter (456) into Unapportioned Funds Account (51). A preliminary to determination of amounts subject to withdrawal by Treasury.
5	Closing of any Unallotted balances (Account 455) into Unapportioned funds in preparation for establishing amount subject to withdrawal by Treasury.
6	Return of any unused portions of allocations to other agencies (Account 459) (concurrent with entry 12).
7	Amounts of unused authorizations for special and trust fund activities will be closed out to the Unapportioned funds account either at the end of the period of availability for obligation or when the funds expire. In trust fund activities, where Congress places a limitation on expenditure of funds in a given period, this account can be used to reflect the amounts available for restoration. When left open for this purpose subsequent restorations or returns to the trust funds must be processed to this account.
8	Closing of actual earned reimbursements (Account 482) to Estimated Reimbursements (Account 401) as a preliminary to establishing the amounts to be withdrawn by Treasury.

<u>Entry Number</u>	<u>Description Closing Entries</u>
9	Unrealized balance (Estimated Reimbursements, 401) closed to Unapportioned funds account (451_ to determine actual amount subject to Withdrawal by Treasury.
10	Withdrawal of unobligated balances by Treasury (direct appropriations, authorizations and reimbursements).
11	Records actual repayment to parent agency (or private concern as appropriate) of unused advances (merged accounts) and the repayment to the parent agency or direct withdrawal by Treasury of unobligated balances of transfer appropriation account funds or consolidated working fund advances.
12	<p>Actual receipt of unused portions of advances returned by other agencies or private concerns. When this entry records the return of funds advanced to other agencies in transfer appropriation accounts, it must be accompanied by entry (6) in the same amount.</p> <p>When this entry records the return of unused consolidated working fund advances, it must be accompanied by an entry in the same amount Dr. 471, Expended Appropriations, Cr. 461, Unobligated Allotments. These amount will usually be included in entries (1) and (4).</p>

### 3-00-50      **OBLIGATIONS CONTROL**

#### A.    Purpose

As an integral part of the total accounting system, the obligations control process in the budgetary segment of accounts serves the following principal functions:

1. Provides a direct system of controls which complies with statutory requirements for records to control and report on obligations and status of funds of each appropriation.
2. Serves as the initial and progressive record for control of accounting transactions from inception to payment.
3. Provides the means for systematically classifying and accumulating data in the format required for prompt and effective reporting to the regulatory agencies.
4. Provides a uniform classification and flow of transactions as a basis for assembly of reports and other data at the Department level.



System characteristics and patterns related to size, structure, transaction volume and the equipment employed will be developed to attain these objectives in accordance with the methods and techniques broadly outlined in this section. The obligations control processes will be maintained primarily to control and report on the status of funds at the allotment and appropriation levels. The classification, control, and reporting accrued expenditures by cost center, project, activity, object of expenditures or in other forms of interest to management are functions of other specific segments of the accounts and accounting system. In a computerized system, obligations, accrued expenditures, and costs can be integrated in a such a way that many accounting transactions will be keyed into the system at the obligation stage and not require detailed re-entry at successive stages. This approach significantly reduces the chance of error as a transaction moves from the obligation to the accrued expenditure stage and subsequently or simultaneously is allocated to cost centers. In addition to the above, obligations and accrued expenditures, any disbursements not preceded by an obligation transaction, will be recorded in summary against fund limitations recorded at the appropriate control level in general ledger accounts. Thus, the status of funds by appropriation or other control level established in the system, will be readily and currently available by reference to the general ledger accounts.

B. Basic Records

The basic records required to establish and maintain obligation control are the documents evidencing the inception and progress of individual obligation transactions. The technical adequacy and accuracy of these documents in terms of evidencing the validity of obligations, shall be reviewed to insure compliance with statutory requirements. The criteria established for these documents and the for the obligations they represent are set forth in Chapter 2-30, "Requirements for Obligations." The responsibility for providing adequate documentation rests primarily upon such other officials designated, within an organization, to discharge the following responsibilities inherent in obligation transactions:

1. To determine that items, services, and/or expenditures contemplated meet requirements and are within limitations or purposes of the appropriation.
2. To determine that items, services, and/or expenditures ordered are required in the quantities and/or amounts requested.
3. To determine that amounts to be utilized are available and are properly and accurately identified by accounts chargeable and object class code.
4. To verify that items, service and/or expenditures are approved by the allottee or his designee.
5. To determine that orders or contracts placed are negotiated in good faith at the best possible terms and

prices, and that conditions are in accord with the requirements of pertinent legislation, as applicable.

6. To determine that supplies, materials and services are obtained from other government agencies where available in the interest of economy and efficiency in procurement.

C. Document Flow and Filing

1. General. The flow of obligations documents to the accounting operation and the assignments of authority and responsibility for the functions and determinations enumerated in Section 3-00-50B preceding will be specified in each agency's manual. Obligations will be recorded, at the appropriate control level prior to or concurrent with the issuance of purchase orders and/or the execution of contracts.
2. Manual System. In a manual system, documents in process must be maintained in files arranged to accord with the control accounts, that is, by appropriation and allotment and by transaction status (undelivered orders and unpaid delivered orders). As obligations progress to the status of liabilities, these documents, together with those evidencing receipt of goods or services form the basis for authorizing and recording the accrued expenditures in the accounts payable and expense accounts.
3. Computer System. In system utilizing computers, the flow and filing of documents within the accounting operation are not subject to the same file classifications required with manual applications. Totals and listings of transaction details are easily and quickly available in any array required to coincide with the control accounts. Documents, however, must be filed systematically so as to be readily accessible for association, verification, analysis and control, at the input stage, for each individual transaction. Transaction documents will be temporarily grouped or batched to facilitate and control the entry process. They will not be filed until each batch input run is balanced to the control totals. A document file organized by the vendor name or order control number will serve for most applications.

Documents in process constitute a continuing major file grouping usually referred to as the "open" file. Paid documents are further subject to major file grouping by fiscal year to facilitate reference and records retention and disposal processes. This file grouping is usually referred to as the "closed" file. Thus, the files categories established for transaction documents are:

- (a) Open File
  - (1) Vendor Name or Oder Control Number

- (b) Closed File
  - (1) Fiscal Year
  - (2) Vendor Name or Order Control Number.

As transactions take place, files maintenance of open file documents by vendor name facilitates individual association and processing of related documents subsequently received with those on file. Maintenance by vendor name has an advantage over order control number because subsequently received documents, like invoices, may not bear the order control number and association can be difficult. Computerized systems commonly utilize a control number identification for individual transactions. Outputs of such a system requiring reference to documents on file must provide the vendor's name.

D. Documents Flow Outlines

The document flow outlines which fulfill the essentials are illustrated and discussed in this section. The variations illustrated provide for the wide range organizational and financial structure characteristics generally observed within the department. Further, one flow pattern may be clearly specified for a particular type of transaction and another prescribed for the general run of transactions. The essential point is that documentation requirements be fully and promptly met at each of the designated points of responsibility established in the system:

1. Definitions and General Considerations

For the purpose of these outlines, the following terms are used in the context indicated: (See also 2-10-20)

- a. Allottee refers to the persons or points at which official responsibility and commensurate authority for funds control is vested. Consequently, the term Allottee refers to variously titled officials with the authority for funds control decisions and the responsibility for initiation of transactions and/or awareness of the extent and progress of transactions within their purview.
- b. Fund Reservation Document is defined to include all documents used to initiate transactions such as requisitions, proposals, estimate, applications, and letters of intent. Estimates may be recorded by either a special form developed for this type of transaction or by the miscellaneous obligation record form. Although the accounting operation may perform certain services in connection with the preparation of these estimates, the primary responsibility for accuracy and timeliness in preparation and submission rests with the allottee or designated program official. The purpose of this requirement is to assure that the responsible official will apply his

- more timely and intimate knowledge of circumstances affecting the construction of such estimates.
- c. Allotment Control Operation refers to the obligation control segment of the accounting function in the fiscal office.
  - d. Contracting Officer refers to the official designated to complete or finalize a transaction, in the form of a valid obligation, in response to the request of the initiating official and in accordance with program and statutory requirements. The term includes purchasing procurement, and contracting officers within the usual definition, and variously titled officials whose functions are concerned with finalizing other forms of obligations.
  - e. Obligational Document refers to purchase orders, contracts in final form, and similar documents which bind all parties concerned and fulfill the evidence requirements set forth in Chapter 2-30 (Requirements for Obligations). (See also 2-10-20 C4).
  - f. Vendor or Contractor refers to the person, agency or organization with which the obligation is placed. The designation includes other Federal agencies, State agencies, private organizations, or any combination thereof.

2. Flow of Documents When Accounting Office Records Reservations

For small organizations with low transaction volume and simple organizational structure, the flow of fund reservation documents through the Accounting Office brings together to one point total allotment control from the time the allottee first reserves funds for a particular purpose through the formal obligational stage. Properly designed with frequent and timely reporting to the allottee, each allotment control eliminates the need for duplicate record keeping by each allottee. The following chart illustrates this type of flow.

**"FLOW OF DOCUMENTS WHEN ACCOUNTING RECORDS FUND RESERVATIONS"**

**CHART NOT AVAILABLE IN ELECTRONIC FORMAT**

3. Allottee Records Fund Reservation in Memoranda Accounts  
For the larger more complex organizations, processing time and complexities are reduced by recording reservations on simple memoranda records maintained by the allottee. The allottee reconciles his records with periodic, usually monthly, reports on a "valid obligation" basis furnished by the accounting operation. Reservations are noted and carried forward to successive reports. The reconciliation also enables the allottee to follow-up on delays in the issuance of orders. The flow of documents is illustrated in the following chart.

**"FLOW OF DOCUMENTS WHEN ACCOUNTING RECORDS ONLY OBLIGATIONS"**

**CHART NOT AVAILABLE IN ELECTRONIC FORMAT**

E. Illustrative Process Format

1. Introduction

The fundamental format and related processes of a manual Obligation Control Register are illustrated and described in some detail to graphically display the principles of control required for effective management of obligations and related transactions. The format and processes described may be appropriately applied, with minor variations, to a simple manual or semi-mechanized system. The basic control principles also apply to larger more complex automated systems. Subsequent portions of this manual section deal with variations in format and processes to be considered in other more complex applications.

2. Illustrative Outline

a. The format of an Obligation Control Register including illustrative entries which follows illustrates the document flow described in Section 3-00-30 D 2. Transactions are recorded at the fund reservation stage to facilitate planning and control. The columnar arrangement is utilized as follows:

(1) <u>Date</u>	Date of entry
(2) <u>Reference</u>	Source Reference of Documents entered
(3) <u>Description</u>	Notational description of transaction, such as, type, object, vendor's name, etc.
(4) <u>Reservations</u>	Reservation and liquidation amounts by batch totals and single large transactions like payroll.
(5) <u>Obligated Amounts</u>	Individual amounts of valid obligations. Batch totals are recorded in general ledger control accounts 461 and 465. As disbursements are made, the difference between recorded obligations and actual expenditures are recorded in batch totals either as plus or minus. An expenditure not previously recorded as an obligations is recorded as separate line item.



(6) Allotment Advice

Quarterly allotments and amendments - recorded from authoritative allotment advances.

(7) Available Balance

The effect of amounts reserved, obligate, and disbursed upon the amount allotted is computed and the available balance is adjusted accordingly. The available balance in this column plus outstanding reservations will equal the balance in the 461 "Unobligated Allotments" account if the allotment is at the appropriation level. If several allotments are made from one appropriation, the sum of the available balances of such allotments plus the outstanding reservations will equal the balance in the "461" account. This reconciliation should be made at least monthly.

"OBLIGATIONS CONTROL REGISTER

Appropriation"

CHART NOT AVAILABLE IN ELECTRONIC FORMAT

- a. Entry (1) in the Obligations Control Register illustrates recording of the original allotment advice. The amount allotted is entered in column (6) and the resultant unobligated balance is extended to column (7). Subsequent allotment advices are similarly entered and are added to be subtracted from the available balance. Increases are recorded as indicated in entry (1). Decreases in allotted funds are recorded in parentheses as in (entry (5)).
- b. Fund reservation documents (requisitions, salary estimates, contract proposals, etc) are sorted and batched by allotment. Each group is edited for complete documentation and accuracy of account coding. The amounts to be recorded, as reservations, are totaled. The totals arrived at for each allotment are compared to available balances reflected in the obligation control registers to determine whether sufficient funds are available. Rejections are annotated and returned to the originator. As each batch is cleared in this manner, a sequential number is assigned. The individual documents (original and carbon) in each cleared batch are stamped with the date, batch number, and a funds validation indication. Copies intended for the contracting or procurement offices are removed and forwarded without further delay. The batch totals are then entered in the obligations control register. Date, batch number description, and amount are entered from the retained documents as indicated in entry (2). The reduction in unobligated balance is computed and the new balance entered in column (7). The retained copies are then filed chronologically by allottee. This process is repeated at least daily.
- c. Copies of payroll documents, purchase orders, contracts, and other valid obligation documents related to requisitions previously cleared are sorted and grouped by allotment as they are received. These documents are processed against the reservations file in groups by allotment. The documents are assembled one for one and a control tape is run on each batch obtaining a total of the amounts to be liquidated as reservations and a total of the amounts to be obligated. A shuttle adding machine with two counters is ideal for this purpose. The liquidated amount and the amount of obligation for each item appear side by side on the tape. A journal voucher is prepared debiting general account 461, Unobligated Allotments and crediting a/c 465, Unliquidated Obligations. The individual obligation documents are then posted to the obligations control register as indicated in entries (3). The first entry (3) reflects a liquidation of reservations, in total

only, of the actual amounts previously recorded as reservations. If there is a difference between the reservations liquidated and obligations recorded, the available balance in column (7) is adjusted accordingly. Obligation documents not preceded by requisitions require special attention as there may be an account designation error or a requirement for expeditious processing to place an emergency order.

The reservation for personal services and related benefits is usually entered at the beginning of each month for the entire month, entry (2). Reservations may also be made for classes of expenditures not preceded by obligating documents or where there are delays in receipt of valid obligating documents. The working papers prepared for each class or type of such expenditures are based upon recorded experience, new normal pay projections, and the provisions of leases and contracts as applicable. The estimates may be prepared by the allottee or the accounting office if it is furnished with necessary and timely information. If the accounting office prepares such estimates, the estimates should be reviewed by the allottee prior to closing the books for the month. Balances of unliquidated reservations can then be used as estimates of obligations incurred to firm up obligations at the end of the month.

The working papers for estimates will be prepared consistently in a form which will facilitate periodic entry and liquidation of the reservations. The miscellaneous obligation record can be used for this purpose. If the allottees prepare the estimates, special forms should be designed for the purpose.

- d. Entry (6) reflects net difference, plus or minus, between disbursements and the obligations liquidated by the disbursements.
- e. Entry (7) is the monthly rule-off of the register for balancing-reconciliation to the general ledger control accounts. Adjusting entries are then made to record incurred obligations (see entry (8) below).
- f. Entry (8) reflects the adjusting entries required to record estimates of obligations incurred for which obligation documents are not available in the accounting office at the close of the month. Salaries and other personnel benefits earned but not payable until the next month, recurring travel performed on blanket orders, and utilities are in this category. Since such entries are made only to ascertain total cumulative obligations incurred, they

will be reversed after the books are reopened both on the control register and in the general ledger.

In any accounting system whether it be simple or complex, the fund control processes can form the base on which the entire system is built. Information by objects of expenditure is needed for the external control agencies and for internal management analyses of expenditures. Information on an accrual basis is needed for program planning, budget presentations and internal management. In a relatively simple system, punch card records can be utilized to good advantage to provide this information. Individual punch cards prepared for each obligation transaction can, through a proper coding system including a status code, be manipulated to (1) control resources on order, (2) update general ledger control and cost accounts as goods or services are received, and (3) array costs by PPB categories and budget activities. Anything less than a punch card subsidiary system is too inflexible to produce accurate and timely information.

F. Larger Agencies. More complex fund organization structure-large volume of transactions

Obligations control function and processes for the larger agencies are essentially the same as those described earlier in this section except that detail is not posted to registers. Usually, the accounting transactions are recorded on punch cards or magnetic tape and updating of accounts is accomplished mechanically. The registers simply serve as a control on input into the mechanized system. Once the daily runs are prepared and balanced to the control registers, the batch totals are not significant. Hard copy ledgers are dispensed with and mechanical tabulations reflect the account balances and available funds at each level to which funds are allocated formally or informally.

Reservations are not usually recorded in the accounts. File copies retained at the originating point (allottee or cost center) serve as memoranda records and enable the allottee or cost center official to control the funds allocated to him. The accounting office records obligations upon receipt of pre-validated purchase orders, contracts, and other valid obligation documents.

The flow of documents within the accounting operation consists of sorting, checking accounting codes and other information which will be recorded, assigning transaction codes, obtaining batch control totals and recording the totals to control registers as a control over input into the mechanized system. After the required transaction information is put in machinable form and daily runs prepared, the accounting office balances each batch to the control register before updating of the master tape files and accounts is started. The exact details of flow and handling are not specifically prescribed since they should conform to the

needs of each application and the equipment used. In a totally integrated system, however, once an obligation is recorded in machinable form, much of the information is used again in successive stages to reflect accrued expenditures and disbursements by a simple updating of the transaction status code. By not having to rekey account identification codes or money amounts, except when adjustments are necessary, errors are reduced appreciably.

### **3-00-60      ACCOUNTS PAYABLE AND OTHER ACCRUAL BASED PROCESSES**

An acceptable accounting system on the accrual basis is built around the "Accounts Payable Process" and the "Accrual Process." These two processes are separately organized and controlled to simplify account entry and control procedures in manual, mechanical, or computer systems applications.

#### **A.      Accounts Payable**

In the "Accounts Payable Process", expenses and asset acquisitions are distributed in the general ledger accounts (control and subsidiary) at the point in time that the liability accrues (goods or services are received). Receiving reports and vendor invoices for minor purchases which serve also as receiving reports are associated with the original obligation documents. The amount of the liability established for each transaction is compared to the amount initially obligated. The documents are batched and control totals for obligations liquidated and related accrued expenditures are developed and recorded by use of internal journal vouchers. The batched documents are then released to subsidiary accounting posting processes or to computer input. Adjustments are made by virtue of acceptable changes in amounts reflected in the receiving reports are computed and recorded in the general ledger account 461. This amount should be the difference between the debits to 465, Unliquidated Obligations and credits to 471, Expended Appropriations. If all vendor transactions are processed through the accounts payable process, the disbursements process will be simpler since all payments to vendors will be treated as credits to disbursing funds and debits to accounts payable. The exact sequence of these actions and the specific methods, techniques, and forms to be employed will vary depending upon the size and complexity of an agency's accounting system and the type of equipment employed. However, the control totals that should be developed in the batching and input process are:

1.      200 Series, Accounts Payable Government, Other)
2.      600 Series, Expense Control
3.      400 Series, Budgetary Accounts, debits and credits to account 461 Unobligated Allotments; account 465, Unliquidated Obligations; and 471, Expended Appropriations.

These controls and account entries are essential for funds control, input/output control, and internal reconciliation and

control requirements. The subsidiary record posting or computer entry processes, whichever employed, may yield exceptions which will require adjustments to be made to the control accounts to bring them into agreement. Further, the exceptions so generated must also be controlled through the re-entry process. Periodically, upon completion of the posting or computer entry and updating process, the subsidiary account balance are reconciled to the control accounts.

B. Other Accrual Based Processes

Accruals of liabilities such as salaries earned but not paid, utilities, services under continuing contracts or agreements, and others requiring data analysis and computations are functionally segregated from the routine vendor voucher flow. Basic documents, working papers, and other material related to the preparation and introduction of these entries should be concentrated at one accounting group. An effective procedure is to place responsibility on this group for maintenance and control of a prenumbered series of journal vouchers for posting accruals to the accounts. Review and approval of these vouchers prior to posting should be carefully supervised. Where monthly reservations are made against allotments and the reservations are based on current knowledge furnished by the allottee, the month end balances of these reservations can be used as obligations incurred and also as accrued liabilities. The accrued liability transactions are subject to the same control and flow requirements established for accounts payable documents and may be either merged in that flow or separately batched for control and subsidiary account postings. This accounting group is concerned with the preparation, for approval and entry, of journal vouchers distributing costs and making accruals in the following areas:

- a. Distribution of salaries and related personnel benefits earned but payable in the following accounting period.
- b. Unpaid rents, utilities, services and other distributable costs during the month.
- c. Inventory issuances
- d. Depreciation
- e. Annual leave
- f. Deferred charges, prepaid expenses

Expenses which are prepaid regularly, such as quarterly space rentals, annual subscriptions (if total is significant), etc., should all uniformly be run through a prepaid expense account, even if payment is sometimes made in the last month of the extended period. Processing on an accrual basis is simplified.

As a general rule, accruals will be made at the end of a period and reversed at the opening of the subsequent period o keep the accounts payable and disbursements processes as simple as possible.

**3-00-70      DISBURSEMENTS**

- A. The disturbing process is concerned primarily with management control and reconciliation of disbursing funds. Account entries distribute disbursements made by appropriation. The entries required to be made are:

(1) Dr.    Accounts Payable  
      Cr.    Disbursing Funds

(Note:        Accounts Payable is debited for the amount originally recorded. If the disbursement is more or less than that amount, the appropriate budgetary, and asset or expense accounts should be debited or credited for the difference.)

- (2) If disbursements is not preceded by an obligation or accrued expenditure, the entries are:

Dr.    Unobligated Allotments  
Cr.    Expended Appropriations

- also -

Dr.    Expense or Appropriate Asset Account  
Cr.    Disbursing Funds

- B. In a manual system accounts payable items are schedule for payment as rapidly as possible after the invoices are received. Voucher schedules of payment are certified and sent to the Regional Disbursing Office daily. Invoices indicating time discounts are given preferential handling. Records are maintained of discounts lost. Further details concerning these procedures are set forth in the HEW Voucher Audit Manual. Control totals are established and entered in the General Ledger accounts as indicated in A above.

- C. In a computer system two general outlines are provided for guidance.

- (1) Payment schedules to Treasury can be produced automatically by the computer in a variety of forms;

(a) printed output, (b) magnetic tape, or © punched cards which are transmitted to the servicing RDO. Advice and consent of the RD must be secured as to timing, format, and schedule for submission of certifications.



- (2) Voucher-schedules of payment can be prepared by flexo-writer or similar equipment which provides as a by-product, account updating information in machinable form. The totals on the voucher-schedules serve as input control for the computer processes.

### **3-00-80      SYSTEM OUTPUT**

In both the general statement on accounting principles and standards, 1-00-30, and in the chapter on reporting objectives and standards, 5-00-00, emphasis is placed on designing an accounting system which will produce valid, useful, and timely data to meet internal and external needs. The chapter on reporting objectives particularly stresses the preparation of useful reports, i.e., reports should be prepared only in the amount of detail required to serve a particular need. Summary data which meets the needs of top management, for example, will not serve the needs of a budget analyst or a supervisor of an operation, since each needs detailed cost information to assist him in carrying out his responsibilities. In addition to reports, a highly mechanized system will need to produce at frequent and regular intervals controls of funds data and general ledger account information if hard copy ledgers are not maintained. The output of any accounting system should provide as a minimum:

1. Current information for control of appropriations, apportionments, and allotments.
2. Reports on availability of funds to allottee and budget staff.
3. Summary cost reports to top management, budget staff, and allottee by budget activities and program planning elements. These reports will contain information bridging costs to obligations.
4. Summary cost reports by PPB categories, programs and program elements for compilation of Department-wide reports. (Separate instructions will be issued for each Department-wide report specifying content and format of information to be submitted. Ultimate goal will be to receive this data in machinable form to facilitate compilation.)
5. Detailed cost reports to managers having "front line" responsibility for direct program operations and projects and program grants and contracts.

6. All information needed for reports to control agencies, such as, the SF-133, Budget Status Report; SF-225, Report of Obligations by Object Class; et al. (See part 5 of this manual for the various external reports required).
7. Expenditure data by country, state, county, city and Congressional District.